Securities Industry Trends

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AN ANALYSIS OF EMERGING TRENDS IN THE SECURITIES INDUSTRY
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The 1H 1985 Profitability Performance of the Securities Industry

Highlights

1. The industry's annualized 1H 1985 after-tax ROE rose to 16% from only 7% in 1984 because of a 17% climb in total revenues due to a favorable interest rate environment and a modest 9% increase in total expenses resulting from the imposition of cost controls in 1984 as well as the drop in interest expense. Importantly, pre-tax net income during the 1H of 1985 exceeded that for all of 1984 by almost 25%.

2. Unlike 1984, the firm categories' ROEs in the 1H 1985 were more uniform and pre-tax income more evenly distributed. Large Investment Banks continued to be the most profitable firm category.

3. Nearly 90% of the climb in proximate non-interest revenues, which excludes other-related revenues and margin interest, was accounted for by increases in trading profits, commissions, mutual fund sales and underwriting.

4. Annualized 1H 1985 revenues from mutual fund sales jumped to $1.5 billion compared with $750 million in 1984. This climb was so sharp that it accounted for a larger proportion (15%) of the 1H 1985 increase in proximate non-interest revenues than any other revenue source except trading profits and commissions.

5. Cost constraint policies instituted in 1984 were effective in limiting industry expense increases in 1H 1985 as activity rose. Annualized non-interest expenses rose 15% in 1H 1985 compared with a 1979 to 1984 compound annual growth rate of 22%. So-called fixed expenses increased an annualized 10% in 1H 1985, significantly lower than the 1979 to 1984 compound annual growth rate of 25%.

Securities Industry Association
120 Broadway • New York, N.Y. 10271 • (212) 608-1500

I. Introduction

The securities industry's profitability improved significantly in the 1H 1985 because of higher revenues due to lower interest rates and expectations that monetary policy would prevent rates from rising sharply. In addition, expenses increased relatively modestly because of extensive cost controls instituted in 1984 which continued during the 1H 1985 as well as lower interest expense resulting from declining rates. The industry's annualized 1H 1985 after-tax return-on-equity (ROE) rose to 16% from 7% in 1984, its lowest level since 1977 (Table 1). After combining the first and second quarters of 1985, an estimated 80% of the NYSE firms doing a public business were profitable in the 1H 1985 compared with 65% in 1984.

Table 1

After-Tax Return-on-Equity[1/]

Firm Categories	1984	Annualized 1H 1985	Change in Percentage Points, 1984-Annal.1H1985
National Full-Line	(2.4)% [2/]	9.8%	12.2
Large Investment Banks	16.8	21.8	5.0
N.Y.C. Based Regional	10.8	18.9	8.1
Regional	3.7	15.5	11.8
Discounters	(2.4)[2/]	11.1	13.5
Industry	7.2%	16.4%	9.2

[1/]For NYSE firms doing a public business.

[2/]Pre-tax ROE

( ) Negative

Source: Securities Industry Database

Profitability also rose in the 1H 1985 for all firm categories because of increases in agency and principal businesses. Unlike 1984, ROE levels in the 1H 1985 were more uniform and pre-tax income more evenly distributed among the firm categories. However, Large Investment Banks (LIBs) continued to be the most profitable firm category. Profitability plummeted in 1984 for most categories largely because of the drop in equity related business as LIBs received 72% of the industry's total pre-tax income.

Annualized pre-tax income climbed nearly 150% in the 1H 1985 compared to 1984. Revenues increased almost 17% because of improved business conditions, while expenses rose only 9% largely because of the drop in interest expense and the comparatively small rise in so-called fixed expenses. As a result, the industry's pre-tax profit margin jumped to 11% from 5% in 1984.

Revenues

Annualized total revenues rose by $5.6 billion to $36 billion in 1H 1985 while proximate non-interest revenues, which excludes margin interest and other-related revenues, climbed by $4.6 billion to $27 billion (Table 2).1/ Largely responsible for these increases were higher revenues from trading activities, commissions, mutual fund sales and underwriting.

Commissions

Annualized commissions increased almost 17% in the 1H 1985, in contrast to a 15% drop in 1984. Also, commissions were responsible for 22% of the rise in proximate non-interest revenues. Although annualized 1H 1985 commissions were near their 1983 record level, they were not the largest revenue source. As in 1984, commissions were overshadowed by trading profits.

Commissions rose in the 1H 1985 because of a nearly 16% increase in publicly traded share volume and a rise in the average price per share of stock traded (Table 3).2/ On the NYSE, the average price per share of stock traded rose to $35 in the 1H 1985 from $33 in 1984. Interest in equities increased in the 1H 1985 as expectations developed that interest rates would be reduced to stimulate the economy and, consequently, corporate profits.

1/ A comparison of proximate non-interest revenues and non-interest expenses helps to better understand the reasons for the change in profitability by minimizing the effects of interest rate trends on revenues and expenses.

2/ Total publicly traded share volume including purchases and sales less member trading on the NYSE, AMEX and regional exchanges is estimated to have risen from 43.8 billion shares in 1984 to an annualized 50.6 billion shares in 1H 1985, or by almost 16%. Firms generally obtain mark-ups from customer transactions in NASDAQ stocks rather than commissions. Consequently, these mark-ups are reported in trading profits and not in commissions.

Table 2

Securities Industry Revenues, 1984 and 1H 1985

(millions of dollars)

Revenues[1]	1984	1H 1985 Actual	1H 1985 Annualized
Commissions			
Listed Equities on and Exchange	$5,232.6	$3,074.1	$6,148.2
Listed Equities Executed OTC	75.0	41.10	82.0
Listed Options	822.3	442.8	885.6
Other	964.7	581.2	1,162.4
Total	7,094.6	4,139.2	8,278.4
Trading Profits			
Market Making OTC	862.9	621.3	1,242.6
Debt Securities	5,524.9	3,510.0	7,020.0
Options on Nat'l Exchange	31.1	86.3	172.6
Other	1,147.7	577.2	1,154.4
Total	7,563.8	4,793.9	9,587.8
Investment Profits			
Realized	697.7	412.8	825.6
Unrealized	(10.4)	63.6	127.2
Total	713.8	517.7	1,035.4
Underwriting			
Debt	2,457.8	1,422.0	2,844.0
Equity Securities	248.3	286.5	573.0
Total	2,706.1	1,708.5	3,417.0
Margin Interest	2,867.8	1,207.6	2,415.2
Mutual Fund Sales	750.9	774.7	1,549.4
Account Supervision	693.8	405.2	810.4
Research	11.1	7.1	14.2
Commodities	739.3	554.9	1,109.8
Other-Related	6,282.8	3,287.6	6,575.2
Other-Unrelated	1,792.1	781.7	1,563.4
TOTAL REVENUES	$31,216.0	$18,178.1	$36,356.2
TOTAL EXPENSES	$29,608.2	$16,177.2	$32,354.4
PRE-TAX NET INCOME	$1,607.8	$2,000.9	$4,001.8

[1] Discrepancies may exist due to rounding.

( ) Negative

Source: Securities Industry Database

Table 3

Equity Sales Volume, Price and Value

1H 1985

Registered Stock Exchanges	Average Daily Share Volume (In Millions)	Annualized Share Volume (In Millions)	Price/Share Traded	Annualized Dollar Value of Shares Traded (In Millions)
NYSE[1/]	107.8	26,944	$35.00	$945,973
AMEX[2/]	8.3	2,070	12.52	26,176
Regional Exchanges[2/]	18.8	4,597	31.50	144,801
	134.9	33,611	$33.23	$1,116,950

1984

Registered Stock Exchanges	Average Daily Share Volume (In Millions)	Annualized Share Volume (In Millions)	Price/Share Traded	Annualized Dollar Value of Shares Traded (In Millions)
NYSE[1/]	91.2	23,071	$33.15	$764,737
AMEX[2/]	6.1	1,545	13.82	21,349
Regional Exchanges[2/]	14.1	3,571	33.70	120,359
	111.4	28,187	$32.16	$906,445

1/Round-lot data.

2/Includes round-lot and odd-lot.

Sources: NYSE, AMEX, regional exchanges, NASD and SEC.

Trading Profits

Trading profits continued to be the most important driving force behind the growth in industry revenues. In the 1H 1985, annualized trading profits climbed 27% to $9.6 billion from $7.6 billion in 1984. Its growth was responsible for about 38% of the rise in 1H 1985 proximate non-interest revenues. In addition, the proportion of trading profits to total revenues rose to 26% in the 1H 1985 from 24% in 1984, and was the largest revenue source in both periods.

Annualized 1H 1985 trading profits on debt securities rose to $7.0 billion from $5.5 billion in 1984. A favorable interest rate environment fueled this 27% increase although during the early part of the 1Q 1985 interest rates rose. Thereafter, interest rates fell from the middle of March through the 1H 1985. For example, the rate on long-term Treasury securities dropped from nearly 12% at the end of March to 10.5% at the end of June. The 1H 1985 jump in trading profits on debt securities accounted for nearly 75% of the increase in total trading profits.

Annualized trading profits from OTC market making climbed by 44% in the 1H 1985 as investors became more active in this market. NASDAQ average daily share volume rose to 79.6 million shares in 1H 1985 from 59.9 million shares in 1984, a 33% increase. Also, the NASDAQ Composite Index went up to 296.2 at the end of 1H 1985 from 247.4 at year-end 1984, a 20% rise. OTC market making was responsible for almost 20% of the rise in total trading profits. In contrast, the uncertain economic environment and high real interest rates in 1984 caused investors to be diverted from equities and resulted in trading profits from OTC market making activities plunging by nearly 38%.

Underwriting

Annualized 1H 1985 underwriting revenues climbed to $3.4 billion, which at this level would exceed the 1983 record high. In 1984, underwriting revenues plunged by 24%. This strong 1H 1985 performance occurred because underwriting revenues from debt securities were increasing at a record pace while revenues from equities were rising at a rate only surpassed by the record achieved in 1983.

Annualized 1H 1985 corporate underwriting volume on a net proceeds basis rose to $115 billion which would exceed the record $97 billion set in 1983 (Table 4). In 1984, corporate underwriting volume dropped to $82 billion. Debt financing was at an $87 billion annualized level in the 1H 1985, significantly above the $69 billion record set in 1983. Common stock and IPO issues both experienced substantial increases in the 1H 1985 and, on an annualized basis, would only be exceeded by 1983 activity.

Corporate underwriting volume in the 1H 1985 was at a high level because of the need and opportunities to restructure balance sheets. At the end of 1984, non-financial corporate business' proportion of short-term liabilities to total liabilities was 59%. In addition, equity ratios had been reduced by the significant number of mergers which had to be addressed during favorable market conditions. Corporate AAA bond rates fell from 12% at the end of 1984 to below 11% at the end of the 1H 1985. The NYSE Composite Stock Index rose fairly consistently from 96.4 at the end of 1984 to 111.1 by the end of the 1H 1985.

Table 4

Underwriting Volume

(billions of dollars)

	1984		1H 1985			
			Actual Data		Annualized Date	
	Dollars	No. of Issues	Dollars	No. of Issues	Dollars	No. of Issues
Corporate						
Bonds	$69.3	648	$43.3	581	$86.6	1,162
Preferreds	3.9	70	3.1	48	6.2	96
Common	8.9	557	11.1	331	22.2	662
IPOs	3.9	354	2.6	131	5.3	262
	$82.2	1,275	$57.6	960	$115.2	1,920
Municipal						
Rev. Bonds	$74.4	NA	$35.4	NA	$70.8	NA
GOs	27.5	NA	$17.9	NA	35.8	NA
	$101.9	NA	$53.3	NA	$106.6	NA

NA Not Available

Sources: Dealers' Digest Inc. and The Bond Buyer

Municipal volume in the 1H 1985 was increasing at an annualized pace that would exceed the record set in 1984 by about 5%. This high level of activity resulted from the changes proposed for municipal securities in the Administration's and Treasury's tax proposals as well as the decline in interest rates. The rate on municipal bonds fell from about 10.0% at the end of 1984 to 8.7% at the end of the 1H 1985.3/

3/Bond Buyer's average index of 20 municipal bonds.

During the past years, there have been increases in the proportion of both corporate debt and equity underwriting volumes which have not been distributed through syndicates (Table 5). In 1H 1985, 40% of debt underwriting volume and 36% of equity underwriting volume were distributed without syndicates.[4/] This has occurred because the larger highly capitalized firms have retained greater proportions of merchandise in order to increase revenues with the drop in gross spreads due to price and cost pressures, and to have enough product to meet the needs of both retail and institutional customers.

Table 5

Corporate Underwriting Volume Distributed Through Syndicates and Non-Syndicates

(billions of dollars)

	1983		1984		1H 1985	
	Dollars	% of Total	Dollars	% of Total	Dollars	% of Total
Debt						
Syndicated	$36.0	69.1%	$40.6	58.6%	$26.2	59.9%
Non-Syndicated	16.1	30.9	28.8	41.5	17.5	40.1
	$52.1	100.0%	$69.4	100.0%	$43.7	100.0%
Equity						
Syndicated	$39.7	88.0%	$10.3	78.9%	$ 9.1	63.8%
Non-Syndicated	5.4	12.0	2.8	21.1	5.1	36.2
	$45.1	100.0%	$13.1	100.0%	$14.2	100.0%

Source: Investment Dealer's Digest Information Services, Inc.

4/Investment Dealers' Digest Information Services, Inc.

Concentration in underwriting revenues increased in 1H 1985 for the Top 10 firms, dropped for the Top 11-25 firms, and rose for the Rest of the Industry (Table 6). The Top 10 firms' proportion increased in the 1H 1985 partly because of the rise in the proportion of volume distributed by these firms without syndicates and the 1984 acquisition of Lehman Brothers, a Top 11-25 firm, by Shearson/American Express. The Rest of the Industry's higher proportion of underwriting revenues resulted largely because of the rise in equity offerings, particularly IPOs, where smaller firms play an important role in originating, underwriting and distributing these securities.

Table 6

Concentration in Underwriting Revenues

Firm Rankings[1/]	1980	1981	1982	1983	1984	1H 1985
Top 10	53.1%	50.4%	57.8%	46.2%	47.8%	52.0%
Top 11-25	22.6	23.3	22.8	29.9	33.9	29.0
Top 25	75.6	73.7	80.5	76.1	81.7	81.1
Rest of Industry	24.3	26.3	19.5	24.0	18.3	18.9
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

1/Firm rankings are by capital.

Source: Securities Industry Database

Mutual Fund Sales

Mutual fund sales revenue increased dramatically in the 1H 1985, soaring to an annualized level of $1.5 billion. Record revenues of $952 million were established in 1983, but in 1984 revenues dropped to $751 million. Significantly, the 1H 1985 climb in revenues from mutual funds sales was so large that it accounted for 15% of the increase in annualized proximate non-interest revenues, a larger proportion than any other revenue source except trading profits and commissions.

Total sales of mutual funds less reinvested dividends amounted to $46 billion for the 1H 1985, exceeding the total for all of 1984 (Table 7).[5/] Increased investors' purchases

5/Investment Company Institute

occurred because of the drop in short-term interest rates and strong markets for equities and longer-term debt instruments. The yield curve remained positive throughout the 1H 1985 as rates on long-term Treasury securities exceeded the rate on the three-month Treasury bill by about 3.7 percentage points at both the beginning and end of this six-month period. Huge amounts of stock and bond funds were added to investors' portfolios. Sales force directed volume, which encompasses brokers-dealers, amounted to about $33 billion or 72% of the total.

Table 7

Mutual Fund Sales[1/]

(billions of dollars)

	1984	Actual 1H 1985
Stock Funds		
Appreciation	$18.2	$13.2
Income	2.7	2.3
	$20.9	$15.5
Bond Funds		
Government	$5.8	$13.0
GNMA	2.9	3.9
Corporate	4.3	3.6
Municipal	9.8	8.3
	$22.8	$28.8
Balanced	$ .2	$ .2
Option Income	1.9	1.7
TOTAL	$45.8	$46.2

1/Excludes short-term funds.

Source: Investment Company Institute

Other-Related

Annualized other-related revenues to the securities business increased a modest 5% in the 1H 1985. Its compound annual growth rate from 1977 to 1984 was about 45%. The main components of this revenue source are interest earned on the repo business, M&A fees, private placement fees and interest earned on investments. Interest earned on the repo business is believed to be the largest component of this revenue item. The average overnight repo rate decreased from 10.1% in 1984 to 8.1% in the 1H 1985, while the average amount of reverse repos climbed 20%, from $87 billion in 1984 to $104 billion in the 1H 1985.

Data on 1H 1985 M&A fees are not yet available from W.T. Grimm & Co., but indications are that the pace was somewhat slower than that set in 1984. Activity among publicly traded firms appears to have held up because many corporations are restructuring by either selling off divisions or buying companies in efforts to ward off takeover attempts. However, acquisitions of privately held firms seems to have slackened relative to the high levels that existed during recent years. Some private firms do not want to be acquired at this time because of their reduced values due to the uncertain outlooks for their industries.

The level of private placements in the 1H 1985 was comparable to the record high of 1984. In 1H 1985, actual volume was $26.2 billion with 839 issues placed, while in 1984 volume was $53.1 billion and issues 1,781. The private placement market is growing dramatically. Contributing to this growth have been leveraged buy-outs, equipment leasing and mortgage pass-through certificates. Traditional private placements are becoming a smaller part of this market because of Rule 415, which makes it cheaper to raise such funds in the public market.6/

Conclusion

Growth in proximate non-interest revenues have slowed relative to their 1976 to 1983 compound annual growth rate of 25%. In the 1H 1985, they rose an annualized 24% after actually falling by 4% in 1984.

Expenses

When industry profitability fell in 1984 to its lowest level since 1977, firms adopted policies to limit overall costs. These 1984 actions helped limit 1H 1985 expenses. Also, cost constraint policies were still effective in the 1H 1985. On an annualized basis, total expenses rose only 9% while revenues climbed nearly 17% (Table 8). Non-interest expenses increased 15%, compared with a 24% jump in proximate non-interest revenues. The 1979 to 1984 compound annual growth rate for non-interest expenses was 22%.

6/"Investment Dealers's Digest," August 12, 1985, p.12.

Table 8

Securities Industry Expenses

(millions of dollars)

Expenses[1]	1984	1H 1985 Actual	1H 1985 Annualized
Registered Rep. Comp.	$5,248.5	$3,287.7	$6,575.4
Clerical & Admin.	5,147.5	2,909.4	5,818.8
Partners' & Stock	934.1	534.0	1,068.0
Other Employee Comp.	396.7	181.6	363.2
Floor Brokerage &			
Clearance	1,162.6	660.5	1,321.0
Fl. Brok.-Brokers	399.1	218.8	437.6
Comm. & Clear Others	395.3	224.1	448.2
Clear. Pd. Non-Brokers	257.9	156.2	312.4
Comm. Pd.-Other Brokers	110.7	61.4	122.8
Communications	1,766.4	941.0	1,882.0
Occupancy & Equipment	1,503.7	863.2	1,726.4
Promotional Costs	769.2	380.9	761.8
Interest	9,505.4	4,610.3	9,220.6
Error Accts. & Bad Debts	212.0	114.5	229.0
EDP Equipment Costs	419.8	225.6	451.2
Non-recurring Charges	26.2	8.8	17.6
Regulatory Fees & Exp.	144.9	104.3	208.6
Other	2,372.3	1,355.3	2,710.6
TOTAL EXPENSES	$29,608.2	$16,177.2	$32,354.4

[1]/Discrepancies may exist due to rounding.

Source: Securities Industry Database

Employment

Annualized employment expenses rose by 18% in the 1H 1985, accounting for 65% of the rise in non-interest expenses. Improved business conditions prompted most of this increase. RR compensation, which is directly related to production, rose by 25% and accounted for 44% of the increase in non-interest expenses. Average RR employment rose to 77,770 in the 1H 1985 from 70,840 in 1984. Clerical and administrative employee expenses increased 13%, which was responsible for 22% of the rise in non-interest expenses. Compensation for a significant proportion of employees in this group, such as traders and investment bankers, is also tied to production. Employment, other than RRs, averaged 132,200 in the 1H 1985 compared with 136,835 in 1984.

Fixed Expenses

The industry's efforts to constrain expenses were evident in so-called fixed expenses which rose by only 10% in the 1H 1985 on an annualized basis. Their compound annual growth rate from 1979 to 1984 was nearly 25%.

The limited 1H 1985 rise in fixed expenses was partly due to the cost constraint policies instituted during 1984. Expenditures for communications and EDP equipment often occur with a lag. Apparently, orders for such equipment were significantly reduced during 1984. Annualized 1H 1985 expenses for communications rose only 6.5% and EDP equipment increased just 7.5%. In contrast, the 1979 to 1984 compound annual growth rate for communications was 21% and for EDP equipment, 28%. Occupancy & equipment expense increases are more difficult to limit in the short-run because of contractual commitments made several years before. In the 1H 1985, annualized occupancy & equipment expenses increased 15%, significantly below its 1979 to 1984 compound annual growth rate of nearly 29%.

Conclusion

The comparatively modest 1H 1985 9% annualized increase in total expenses contributed importantly to the climb in industry profitability. Interest expense fell by an annualized $285 million, reducing total expenses by about 10%. So-called fixed expenses rose by 10%, significantly lower than the 1979 to 1984 compound annual growth rate of 25%. As a result of the industry's limited increase in expenses and the climb in total revenues, actual pre-tax net income was $2.0 billion in the 1H 1985 which exceeded the industry's profits for all of 1984 by 25%. At this rate, pre-tax net income for all of 1985 would reach $4.0 billion.

Unfortunately, there are indications that profitability slowed considerably in 3Q 1985 from 1H 1985 pace. Commissions decreased as average daily share volume fell on the NYSE to 99.1 million shares in the 3Q 1985 from 107.8 million shares in 1H 1985 and on the AMEX to 7.2 million shares in the 3Q 1985 compared with 8.3 million shares in 1H 1985. Trading profits also appear to have declined from their 1H 1985 level. Trading profits on debt securities probably fell in 3Q 1985 as interest rates on long-term Treasury securities rose to 10.8% at the end of September from 10.4% in June without much volatility presenting trading opportunities. Trading profits on OTC market making also appear to have dropped in the 3Q 1985 as the NASDAQ Composite Index fell to 280 at the end of September from 296 in June. In addition, interest expense increased in the 3Q 1985 because of rising rates. Due to the less favorable interest rate environment in the 3Q 1985, the industry's pre-tax net income is not likely to continue at the same pace as the 1H 1985. Instead, pre-tax net income should reach about $3.5 billion for the year given trends through the first three quarters of 1985.

Ira Epstein
Assistant Director
of Research

VOLUME

	SEPTEMBER 1985	YEAR-TO-DATE 1985	SEPTEMBER 1984	YEAR-TO-DATE 1984	% CHAN. Y-T-D 1985-1984
AVERAGE DAILY SHARE VOLUME ON					
NYSE (MILS.)*	97.9	104.8	93.1	92.1	13.8%
AMEX (MILS.)*	7.0	8.0	6.0	6.1	30.4%
NASDAQ (MILS.)*	74.4	77.6	62.6	60.0	29.4%
REGIONAL EXCHANGE (MILS.)*	N/A	N/A	14.8	14.3	N/A
DOLLAR VALUE OF SHARES TRADED ON					
NYSE (MILS.)	$66,237	$691,539	$59,684	$581,930	18.8%
AMEX (MILS.)	1,666	18,805	1,398	15,304	22.9%
ODD-LOT SHARES PURCHASED ON NYSE (THOUS.)	4,711	59,330	4,098	56,345	5.3%
ODD-LOT SHARES SOLD (INCLUDING SHORT SALES) ON NYSE (THOUS.)	11,694	135,779	12,931	124,543	9.0%
NYSE BLOCK VOLUME AS A PERCENT OF TOTAL SHARES TRADED	53.3%	51.8%	51.5%	50.0%	----
CONTRACTS TRADED (THOUS.)					
CBOE OPTIONS	11,531	102,638	10,090	91,400	13.4%
AMEX OPTIONS	2,308	24,454	2,142	25,331	-3.5%
COMMODITY	12,759	117,966	11,159	114,750	2.8%

YIELDS

(MONTHLY AVERAGES)

	SEPTEMBER 1985	SEPTEMBER 1984	BASIS POINT CHG 1985-1984
BOND BUYER INDEX (20 BOND)	9.27%	10.10%	(83)
CORPORATE BOND YIELDS (MOODY'S)			
Aaa CORPORATE	11.07	12.66	(159)
Baa CORPORATE	12.48	14.35	(187)
RATIO Aaa CORPS. TO Baa CORPS.	0.89	0.88	1
MUNICIPAL BOND YIELDS (MOODY'S)	9.27	10.10	(83)

PRICES

(END OF MONTH)

	SEPTEMBER 1985	SEPTEMBER 1984	% CHAN. Y-T-D 1985-1984
DOW JONES INDUSTRIALS	1328.63	1206.71	10.10%
STANDARD & POOR'S 500	182.08	166.1	9.62%
NYSE COMPOSITE	105.19	95.77	9.84%
AMEX MARKET VALUE INDEX	222.31	215.45	3.18%
VALUE LINE COMPOSITE	189.01	182.44	3.60%
NASDAQ COMPOSITE	280.33	249.94	12.16%

UNDERWRITING

	First Nine Months 1985	First Nine Months 1984	First Nine Months %Change 1985-1984
CORPORATE FINANCING (Gross New Issues-Dollars in Billions)			
Total	94.6	55.1	71.7%
Common Stock	18.1	6.6	174.2
# of Common Stock Issues	505	427	18.3
Preferred Stock	5.9	3.1	90.3
# of Preferred Stock Issues	87	52	67.3
Corporate Debt	70.7	45.4	55.7
# of Corporate Debt Issues	942	221	326.2
MUNICIPAL FINANCING (Gross New Issues-Dollars in Millions)			
Total	107,656	86,234	24.8
Notes	16,875	27,647	(39.0)
Bonds	90,779	58,587	54.9

MARGIN DEBT

	SEPTEMBER 1985	SEPTEMBER 1984	% CHANGE 1985-1984
MARGIN DEBT OUTSTANDING ($MILS)	$25,330	$22,800	11.1%
NET CHANGE IN MARGIN DEBT ($MILS)	2,530	3,040	-16.8%
% OF ACCOUNTS WITH EQUITY UNDER 40%	12%	11%	-----

FINANCIAL DATA FOR NYSE FIRMS DOING A PUBLIC BUSINESS
(MILLIONS OF DOLLARS)

	Second Quarter 1985	Yr.-To-Date 1985	Second Quarter 1984	Yr.-To-Date 1984	% Change 2nd Q.1985 2nd Q.1984	Yr.-To-Date % Change 1985 - 1984
REVENUE						
SECURITIES COMMISSION INCOME	$1,975	$4,142	$1,642	$3,614	20.3%	14.6%
TRADING PROFITS	2,453	4,798	1,409	3,356	74.1	43.0
UNDERWRITING	1,008	1,708	623	1,176	61.8	45.2
TOTAL REVENUE	9,216	18,186	6,900	14,344	33.6	26.8
TOTAL EXPENSES	8,149	16,186	6,998	13,945	16.4	16.1
NET INCOME BEFORE TAXES	1,067	2,000	(98)	399	*	401.3
PERCENT OF FIRMS SHOWING LOSS	22.1%	19.6%	50.4%	40.8%	---	---

* Infinite Change.

RECENT INTERESTING READING AND STATISTICAL MATERIAL

ITEM	DESCRIPTION	SOURCE
The New York Securities Industry: Its Contribution To New York State and City	The study shows that the New York securities industry has a significant impact on the State and City economies. Among the study's findings: the industry contributes directly and indirectly almost 10% of all taxes collected by the City and State.	SIA $30 members $50 others
Management and Professional Earnings in the Securities Industry	Base salary and bonus information on 128 middle management and professional positions, gathered via survey of 46 SIA member firms. Six-part, 350-page report includes comparisons for national versus NYC firms, data at 12/84 versus 4/85, and average, mean and percentile information.	SIA Attn: William Jordan $400 members (1st copy) $1200 others (1st copy) $50 add. copies
"Third - Quarter Corporate Finance Rankings"	At the end of the third-quarter, $94.6 billion was raised in all markets, surpassing financings in the comparable period for the past 4 years. Book managers are ranked based on total underwritings (Salomon has the lead) and according to deals handled in various markets and by types of issuer.	Investment Dealers Digest 10/7/85
Report to Congress on the Capital Gains Tax Reduction of 1978	Analysis concludes that the 1978 capital gains tax cut will over time cause the rate of investment, capital stock, national income, labor productivity, and the overall standard of living to be higher than if capital gains taxes were unchanged. However, the study is split on the revenue effect.	Superintendent of Documents U.S. Government Printing Offi Washington, D.C. 20006
"Ranking America's Top Money Managers"	Prudential Insurance Co. is in the lead in this annual ranking of America's 300 largest institutions. Data included are assets under management and portfolio mix. Institutions also ranked by holdings of equities, fixed income and real estate.	Institutional Investor August 1985

The Stock Exchange Specialist System: An Economic Analysis	Author examines the stock exchange specialists system, with emphasis on the NYSE specialist. Twelve-part paper includes sections on: economies of the specialist unit, specialist portfolio composition, price stabilization, and fairness and efficiency of the specialist system and regulatory response.	Working Paper 85-116 Owen Graduate School of Management Vanderbilt University Nashville, Tennessee
"Federal Tax Reform and the Regional Character of the Municipal Bond Market"	Article attempts to identify how widely the effects of reform may vary across states. This analysis begins by describing how state laws contribute to the regional character of the bond market. The second section describes the role of demand for bonds by state residents relative to in-state borrowing needs. State tax law and populations in each tax bracket are then analyzed to contrast the effects of current federal law with those of the most recent Administration proposals. The findings suggest that these proposals may have effects on the cost of borrowing that vary widely from one state to another.	Quarterly Review Federal Reserve Bank of New York Autumn 1985
"Mega Mergers-- Beginning of the End?"	The first half of 1985 marked a watershed for M&A activity, and perhaps the peak of mega mergers. Author discusses reasons why mergers in coming years are likely to be friendly arrangements.	Financial Analysts Journal July - August 1985
"Sears Roebuck's Struggling Financial Empire"	Article reviews the successes and failures of Sears & Roebuck in attempting to establish the one-stop financial supermarket.	Fortune 10/14/85
"Going for Broke in the Gilt Market"	In the U.K. government gilt market, deals are still hand-written into ledgers and the six market-makers keep positions in their heads. This quaint world will change, when fixed commissions and the single capacity system which kept the market gentlemanly and uncompetitive will be swept away. Twenty-nine well-capitalized, U.S.-style primary market-makers, over half foreign-owned, will compete for profits and market share.	Euromoney September 1985